KWAZULU-NATAL PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

ACCOUNTING P1

MARKING GUIDELINE

SEPTEMBER 2022

PREPARATORY EXAMINATION

NATIONAL SENIOR CERTIFICATE

GRADE 12

MARKS: 150

MARKING PRINCIPLES:

1. Penalties for foreign items are applied only if the candidate is not losing marks elsewhere in the question for that item. No double penalty applied.
2. Penalties for placement or poor presentation (e.g. details) are applied only if the candidate is earning marks on the figures for that item.
3. Full marks for correct answer. If answer incorrect, mark the workings provided.
4. If a pre-adjustment figure is shown as the final figure, award one mark. Not the method mark for the answer. Note: if figures are stipulated in memo for components of workings, these do not carry the method for final answer.
5. Unless otherwise indicated, the positive or negative effect of any figure must be considered to award the mark. If no + or – sign or bracket is provided, assume that the figure is positive.
6. Where indicated, part-marks may be awarded to differentiate between differing qualities of answers from candidates.
7. This memorandum is not for public distribution, as certain items might imply incorrect treatment. The adjustments made are due to nuances in a certain question.
8. Where penalties are applied, the marks for that section of the question cannot be a final negative.
9. Where method marks are awarded for operation, the marker must inspect the reasonableness of the answer before awarding the mark.
10. Operation' means 'Check operation'. 'One part correct' means 'Operation & one part correct'. Note: check operation must be +,-,x,÷, or per candidates operation.
11. In awarding method marks, ensure that candidates do not get full marks for any item that is incorrect, indicate with a ☒. Note: do not award marks for workings if numerator and denominator are swapped-this also applies to ratios.
12. Be aware of candidates who provide valid alternatives beyond the marking guideline.
13. Codes: f=foreign item; p=placement.

This marking guideline consists of 10 pages.

QUESTION 1

1.1 Choose an explanation from column B that matches the term in column A. Write only the letter (A – D) next to the question numbers (1.1.1 to 1.1.3) in the ANSWER BOOK.

1.1.1	C ✓	
1.1.2	D✓	**3**
1.1.3	A ✓	**3**

1.2.1

	CALCULATION	ANSWER	
(a)	2 946 400 – 1 516 400	1 430 000 ✓✓ **2**	
(b)	180 000 – 62 400 – 19 600 (117 600 x 20/100 x 10/12; 117 600 two marks; One part correct)	98 000 ☑ One part correct **5**	
(c)	Sold: 19 600 ☑ see (a) above New: 411 000 x 20/100 x 2/12 = 13 700 ✓☑ One part correct Old: (900 000 – 180 000) – (570 000 – 62 400) 720 000 – 507 600 212 400 ✓☑ x 20% = 42 480 ☑ One part correct One part	75 780 ☑ One part correct **7**	
(d)	(66 099 ✓ – 61 099 ✓✓) x 100/10 x 12/2 ✓ (61 100 – 1; 5 000 three marks)	300 000 ☑ One part correct **5**	**19** **19**

1.2.2 Statement of Comprehensive Income for the year ended 28 February 2022.

	Sales (7 816 150 – 35 700 – 35 700 or – 71 400)		One part correct 7 744 750	✓☑
	Cost of sales (7 744 750☑ + 360 000✓) 100/170	One part correct	(4 767 500)	☑
6	**Gross profit**	Operation	2 977 250	☑
	Other operating income		447 080	
	Service fee income		**350 000**	
	Rent income (87 465✓ + 8 415✓✓) OR (25 500 + 53 550 + 16 830)	One mark One mark One mark	95 880	☑
	Provision for bad debts adjustment		1 200	✓✓
7	**Gross income**	One part correct	3 424 330	☑
	Operating expenses	Operation GI – OP	(1 584 330)	☑
	Directors fees		**550 000**	
	Audit Fees		**88 410**	
	Salaries and wages (681 600 + 13 500✓ + 1 755✓)	One part correct	696 855	☑
	Insurance (44 700✓ – 6 750✓✓)	One part correct	37 950	☑
	Bad debts (6 730 + 2 000)		8 730	✓✓
	Packing material (820 + 4 600 – 560)	One part correct	4 860	✓☑
	Depreciation (75 780 one mark + 66 099 one mark)	See 1.2.1	141 879	✓☑
	Loss on sale of an asset (98 000 See 1.2.1 – 70 000)	One part correct	28 000	☑
	Loss on stock		8 000	✓✓
18	Sundry Expenses	Balancing figure	46 816	☑
	Operating profit	Operation	1 840 000	☑
	Interest income		**80 000**	
	Operating profit before interest expense	Operation	1 920 000	☑
	Interest expense		(120 000)	✓✓
	Net profit before taxation	Taxation x 100/30	1 800 000	✓✓
	Taxation		**(540 000)**	**38**
7	**Net profit after tax**	Taxation x70/30 or NPBT x70/100	1 260 000 ☑	**38**

Foreign entry -1 max -2

TOTAL MARKS
60
60

QUESTION 2

2.1.1 Ordinary share capital note

AUTHORISED SHARES				
800 000 SHARES				
ISSUED SHARES:				
480 000	**shares issued on 1 March 2021**	**1 770 000**		
200 000	shares issued on 1 March 2021	950 000 Balancing figure	☑	
(2 500)	buy-back of shares @ R4✓✓ must be in brackets	(10 000) One part correct	☑	**5**
677 500☑ Operation	Shares issued at the end	**2 710 000**		**5**

2.1.2 RETAINED INCOME

Balance at the beginning balancing figure	68 000	☑	
Buy back of shares (12 500 – 10 000 See 2.1.1) OR 2 500 x 1 must be in brackets	(2 500)	✓☑	
Net profit after tax (747 000 – 224 100)	522 900	✓☑	
Ordinary share dividends Operation one part correct must be in brackets	(427 500)	☑	
Interim dividends (348 500 – 192 000)	156 500	☑	
Final dividends	271 000	✓	**9**
Balance at the end	**160 900**		**9**

2.2 Cash Flow Statement for the year ended 28 February 2022

	Cash flow from operating activities			
	Cash generated from operations			
	Interest paid	(128 000)	✓	
	Dividends paid	**(348 500)**		
5	Tax paid (224 100 ✓+ 17 500✓ + 45 000✓) Operation one part correct	(286 600)	☑	
	Cash flow from investing activities	**(417 000)**		
	Purchases of Fixed assets (3 372 300✓ + 232 300✓ + 583 000✓ – 2 937 600✓)	(1 250 000)	☑	
	Proceeds from sale of fixed assets	**583 000**		
6	Changes in financial assets Balancing figure	250 000	☑	
	Cash flow from financing activities Operation one part correct	649 500	☑	
	Proceeds from shares issued See 2.1.1	950 000	☑	
	Buy-back of shares	**(12 500)**		
4	Changes in loan	(288 000)	✓✓	
	Net change in cash and cash equivalent operation one part correct	408 500	☑	
3	Cash and cash equivalent at the beginning (5 000 – 92 000)	(87 000)	✓☑	**18**
	Cash and cash equivalent at the end	**321 500**		**18**

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2.3.1 **% operating profit on sales**

691 600 x 100
2 660 000 1
26% ✓☑ Operation one part correct

2
2

2.3.2 **Net asset value per share (NAV)**

2 870 900 ✓x 100
677 500 ☑ See 2.1.1
424 cents ☑ Operation one part correct

3
3

2.3.3 **Debt-equity ratio**

892 000 ✓ : 2 870 900 ✓

0.3 : 1 ☑ Operation one part correct

3
3

TOTAL MARKS
40
40

QUESTION 3

3.1 Liquidity

Identify the company that is managing its liquidity more efficiently. Quote THREE financial indicators, with figures, to support your choice.

Any three financial indicator explaining trend from Thanduyise Ltd with figures showing Sound control of short term debts, cash and inventory:

✓✓ ✓✓ ✓✓

Part marks for incomplete/partial/unclear response:

Current ratio decreased from 1,9 : 1 to 1,8 : 1 by 0,1.
Acid test ratio increased from 0,9 : 1 to 1,1 : 1 by 0.2.
Stock turnover rate increased from 9,5 times to 9,9 times by 0,4.

6
6

3.2 Returns, earnings and dividends:

- **Explain whether the shareholders of Khombindlela Ltd should be satisfied with their returns on investment. Quote figures.**

One explanation with figures ✓✓ Part marks for incomplete/partial/unclear response

ROSHE decreased from 9.2% to 8.3% by 0.9%. This is 0.2% lower than interest of fixed deposit of 8.5%. Poor performance than alternative investments.

2
2

The directors of Thanduyise Ltd changed the dividend pay-out policy.

- **Explain this change. Quote figures.**

One explanation ✓✓ Figures ✓ Part marks for incomplete/partial/unclear response

Dividend payout rate increase from 51% to 95% by 44%.
EPS increased from 64 cents to 83 cents by 19 cents to increase DPS.
Earnings used for DPS increase from 33 cents to 79 cents by 46 cents.

3
3

- **Explain why you consider this change to be either a responsible or an irresponsible decision. Provide TWO point.**

Two explanations responsible for: ✓✓ ✓✓
Part marks for incomplete/partial/unclear response:

Earnings used for dividends / Retained income used for future improvements / Shareholders kept happy with improved dividends / Market prices influenced with increased dividends / Potential investors' appetite increased / Stabilizing dividends over several years.

4
4

- **Njabulo feels that the dividends he received in Thanduyise Ltd is better than that of Khombindlela Ltd. Explain why you agree with him. Quote figures.**

Compare DPS to value of share (MP/NAV) in two companies ✓✓ ✓✓

Khombindlela Ltd Dividend yield decreased from 8% to 7,1% (using NAV) while Thanduyise dividend yield increased from 3,5% to 8,5% (using NAV).

Khombindlela Ltd Dividend yield decreased from 8% to 7,2% (using MP) while Thanduyise dividend yield increased from 3,5% to 8,4% (using MP).

4
4

3.3 Risk and gearing

Compare the risk and gearing of each company and explain which company is managing debt more effectively. Quote TWO financial indicators, with figures.

Comment on risk and gearing with figures and trends: ✓✓

Part marks for incomplete/partial/unclear response:

Khombindlela Ltd.

- Debt/equity ratio increased from 0,2 : 1 to 0,5 : 1 by 0,3. This indicates an increase in risks.
- ROTCE decreased from 13,4% to 11,9% By 1,5%. ROTCE of 11,9% is below the interest on loan of 12,5%. Interest on loans that indicate a negative gearing.

Comment on risk and gearing with figures and trends: ✓✓

Part marks for incomplete/partial/unclear response:

Thanduyise Ltd.

- Debt/equity ratio decreased from 0,6 : 1 to 0,2 : 1 by 0,4. This indicates a decrease in risks.
- ROTCE increased from 9,8% to 13,4% By 3,6%. ROTCE of 13,4% is above the interest on loan of 12,5%. Interest on loans that indicate a positive gearing.

Thanduyise risk and gearing is better than Khombindlela Ltd. ✓✓

6
6

3.4 Shares and share holding:

3.4.1 Njabulo, the majority shareholder of Thanduyise Ltd, was not aware that directors issued additional shares during the financial year. Explain why he wants to maintain his position as the majority shareholder. Provide ONE point.

One explanation ✓✓ Part marks for incomplete/partial/unclear response:

Majority voting rights /Influence major decision making / Influence appointments / Shares to be sold / Share repurchase.

2
2

3.4.2 Calculate the number of shares that he must purchase to achieve this objective, and the amount he will require to purchase these shares.

Majority shareholding: 51% of 1 040 000 = 530 400 ✓

Shares to buy: 530 400 – 460 000 = 70 400 ☑ One part correct

Amount to pay: 70 400 x 945 cents ✓ = R665 280☑

Accept other alternative answers such as 50% + 1 share or 50% + 100 shares)

4
4

3.4.3 What advice would you offer Njabulo about his shares in Khombindlela Ltd? Provide TWO point. Quote figures.

One explanation with figures ✓✓ Part marks for incomplete/partial/unclear response

- Sell Khombindlela shares because ROSHE decreased from 9,2% to 8,3% which is below interest on fixed deposit.
- Invest money in Fixed deposit because interest is 8,5% which is better than ROSHE of 8,3%.

4
4

TOTAL MARKS
35
35

QUESTION 4

4.1.1 **Explain what is meant by *good corporate governance* and explain why it is important to the shareholders**

Explanation ✓✓ Part mark for unclear/incomplete/partial answer

- Managing the business on sound business and ethical principles.
- Looking after the interest of all role players /stakeholders by being fair.
- Ensure that the company has proper rules, policies and practices to create long term shareholder value, and are implementing them.

Importance to shareholders ✓ Accept short, incomplete statements

- Impact on the image of the business / goodwill
- Improvement in share price
- Potential investors will be attracted
- Confidence in management and control

3
3

4.1.2 **Provide ONE possible reason why Freedom Book says he will vote against the proposal by Mngoma Ltd**.

One point ✓✓ Part mark for unclear/incomplete/partial answer

- He will lose his majority control on the Board
- CEO is appointed – not necessarily the majority shareholder
- Majority control(is more relevant to voting – when all shareholders are present; not necessarily on the board)
- He may also lose his CEO status
- He has the business interest at heart
- He does not want the company to be over-capitalised

2
2

4.1.3 **Provide TWO points of advice on how the other directors should handle this matter.**

TWO valid points ✓ ✓ Part mark for unclear/incomplete/partial answer

- Call up special meeting of shareholders
- Issue a grievance report
- Start disciplinary proceedings
- Ask him to resign
- Report irregularities to authorities i.e. SAPS, CIPC

4
4

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4.2.1 **Choose the correct word from those given in brackets.**
Zululand Ltd received a /an (qualified/unqualified/disclaimer) audit report.
Disclaimer ✓

Give a reason. ✓
Must explain that no opinion was expressed / must explain a reason why no opinion was expressed. Mark the reason independent of word chosen above.

The external auditors did not express an opinion on the financial statements of Zululand Ltd.

Auditors were unable to express an opinion because there was insufficient evidence.

Auditors were unable to express an opinion because they were not able to verify a significant part of the company's transaction.

2
2

4.2.2 **Explain TWO consequences of this audit report for the company and/or the CEO.**

Any two consequences ✓✓ ✓✓ Award part-marks for incomplete answers

Responses for 2 marks:

- The auditors will be more vigilant in future / could increase audit fees if they spend more time on the audits in future
- Shareholders / investors will lose faith in the directors / company
- Inquiry / investigation into the company or its directors
- The CEO / Directors might not be re-elected at the next AGM
- The company could be de-listed on the JSE

Responses for 1 mark:

The CEO will be fired / Written warning / Investigation / Suspension.

4
4

TOTAL MARKS
15
15

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